SCB Economic Intelligence Center

CLMV Monitor by EIC

2 March 2017

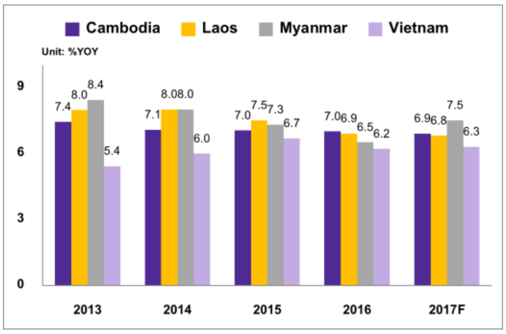
The World Bank and the IMF maintain positive outlook for CLVM countries in 2017. CLMV economic expansion is expected to see stable growth averaging around 7%YOY, preserving their status as one of the fastest growing regions in the world. However, FDI inflows to the region will continue to grow at a moderate level due to weak global investment and other countries leaning toward increased domestic development. Global trade will remain subdued, affecting the performance of CLMV export sectors and risks associated with increased current account deficits. In 2016, the CLMV countries showed progress in many economic development aspects. Ambitious national economic plans, clearer economic goals, infrastructure improvement, deepening regional integration, and trade negotiations were major developments.

CLMV will be exposed to more external risks caused by increasing policy uncertainty in major advanced countries. At the "ASEAN Ministerial Meeting Retreat" in the Philippines on February 21, foreign ministers of member countries exchanged views on Trump administration policies toward ASEAN as a priority topic. Other issues were the overall interaction of the ASEAN community and globalization trends. As CLMV countries attempt to increase their openness in regional and global scales, the countries start to prepare for external uncertainties and provide space for fiscal and monetary policies in case of external shocks.

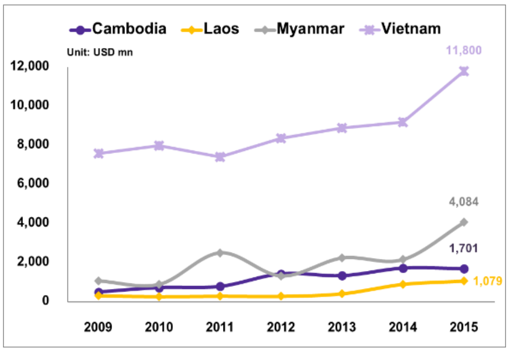
Investments in infrastructure development, human capital and high value-added industry are the new growth engines for CLMV countries. Last year, CLMV governments actively improved their infrastructures to lift living standards and support the business environment. All CMLV countries aim to attract additional FDI to more value-added manufacturing such as hi-tech products, vehicle assembly, and electronic parts. Favored FDI and future investments are also required to benefit human capital in terms of job creation and skill spillovers. Transforming from agricultural to more industrialized countries, CLMV countries now begin to focus more on increasing labor productivity rather than depending on only cost competitiveness and labor abundance as in the past.

Sources: ADB, Bloomberg, CEIC, CIA, IMF, World Bank, Focus Economics, Capital Economics, and Press

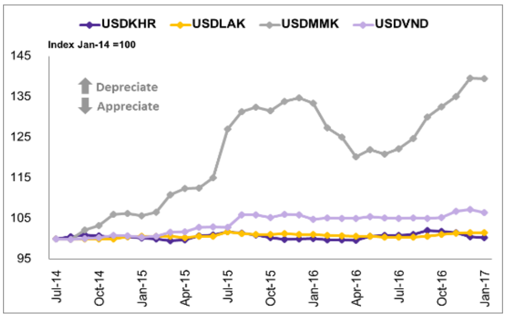
GDP Growth



Foreign Direct Investment (BOP basis)



Foreign Exchange Rate



Contact Person:

Phacharaphot Nuntramas, Ph.D.
(phacharaphot.nuntramas@scb.co.th)
Thanapol Srithanpong, Ph.D.
(thanapol.srithanpong@scb.co.th)
Jiramon Sutheerachart
(jiramon.sutheerachart@scb.co.th)
Kunyarak Naiyaraksaree
(kunyarak.naiyaraksaree@scb.co.th)
Economic Intelligence Center (EIC)
EIC Online: www.scbeic.com

SCB Economic Intelligence Center

Cambodia Monitor by EIC

2 March 2017

Macroeconomic Update

Cambodia achieved satisfactory economic growth at 7% in 2016, driven by strong growth of garment exports, construction, real estate, and tourism. FDI inflows, now accounting for 11% of GDP, and a reduced trade balance deficit contributed to an increase in the overall balance of payments, allowing foreign exchange reserves to accumulate to up to 5 months of imports. Inflation remained low at 3% due to low oil prices and supportive fiscal and monetary policies. In the financial sector, the National Bank of Cambodia (NBC) has taken actions to promote stability as the banking system grows robustly. The World Bank, the IMF and Asian Development Bank (ADB) project that Cambodia will continue to grow at 6.9% in 2017, supported by the same key sectors as in 2016.

National Bank of Cambodia (NBC) released its review of 2016 and outlook for 2017, highlighting continued large growth of the banking sector while warning that the country was still vulnerable to external economic factors. The banking sector experienced healthy growth in 2016, though at a cooler pace than in recent years. Bank assets grew by 17.4%, reaching USD 27.8 billion, while deposits grew by 20.7%, to USD 15.4 billion. The level of dollarization in the economy remains high, with the NBC reporting that the ratio of foreign currency deposits to riel and other liquid assets was 83%, seriously reducing the effectiveness of the country's monetary policy.

The NBC has implemented many policies and measures to increase financial stability, to promote the use of the riel, and to influence market interest rate. As the financial system becomes more developed, high dollarization is one of the risks exposing Cambodia's financial system in the event of external shocks. The NBC has therefore tried to promote increased use of the riel by increasing public awareness about the importance of local currency usage, reducing the transaction cost of payments in riel, requiring banks and financial institutions to provide loans in riel, and developing instruments and operations for liquidity provision in riel. Liquidity Providing Collateralized Operation (LPCO) was first introduced in 2016 to boost the riel's liquidity as well as to reduce lending rates offered by banks and microfinance institutions. With this operation, NBC will be able to lower interest rates and allow financial institutions to obtain funds at a more reasonable cost.

Currencies

FX	Last	%MOM	%YTD
USDKHR	4004.0	-1.486%	-1.62%
EURKHR	4260.6	-1.86%	-0.50%
JPYKHR	35.6	0.25%	2.27%
THBKHR	115.5	0.87%	2.21%

as of February 28, 2017

Facts and Figures

Country	Cambodia
Population (2016 est.)	15.96 million
Labor force (2016 est.)	6.64 million
GDP (2016 est.)	19.37 USD billion
GDP per capita (2016 est.)	1,228 USD
GDP by sector (2016 est.)	Agriculture: 26.7% Industry: 29.8% Services: 43.5%
Top exports (2016)	Garment 74% Footwear 8% Rubber 2%
Export partners (2016)	United States 17% Singapore 10% Japan 8% Germany 7% United Kingdom 7%
Top imports (2016)	Petroleum products 10% Vehicles 6% Cigarettes 2% Motor Bikes 2% Construction Materials 1% Steel 1%
Import partners (2016)	Thailand 26% China 25% Vietnam 15% Hong Kong 6% Singapore 5%

Cambodia's two main ports reported markedly slower growth in container traffic in 2016 due to a fall in import traffic, although exports of garments and agricultural products continued to rise. Total container throughput at Cambodia's sole deep-sea port, Sihanoukville Autonomous Port (SAP), amounted to 400,187 20-foot-equivalent units, or TEU, in 2016, an increase of 2.1% compared to 2015. Meanwhile, the publicly listed Phnom Penh Autonomous Port (PPAP) recorded a total throughput of 151,781 TEU, a 4.8% increase from the previous year. Cambodian imports were still centered largely on construction material, clothing, and food and beverages, while exports were dominated by garments and footwear, milled-rice, and other agricultural products. Although container traffic growth slowed in 2016, there have been no negative signs in the overall freight forwarding business in Cambodia, so container traffic is expected to gradually recover in 2017, along with a recovery in world trade.

Efforts to introduce an effective, modern taxation system appear to be paying off as government revenues increased last year, giving the country more revenue to use for development at a time when donor aid is decreasing. Tax revenue collection grew by 15% to USD 1.49 billion last year, according to data released by the General Authority for Taxation. The higher tax revenue recorded in 2016 was the product of a series of reforms in recent years aimed at improving the efficiency of the tax regime and encouraging taxpayer compliance. The growth in tax revenue comes as more efficient customs procedures and enforcement has been implemented, yielding higher customs and excise revenue. The General Department of Customs and Excise revealed that Cambodia collected USD 1.74 billion in customs and excise revenue in 2016, a 10% increase from last year.

Electricity costs in Cambodia are among one of the highest in the region, and the government has approved two electricity development projects to provide cheaper alternatives and reducing imports from neighboring countries. The two projects are expected to begin generating cheap electricity across the country by 2019. A 230-kilowatt transit grid from Ta Tei Dam in Koh Kong province to Phnom Penh will be 220-kilometers long and cost USD 136 million. A 135-megawatt coal-fired electricity plan in Preah Sihanouk province will replace the Cheay Areng Dam in Koh Kong and cost USD 250 million. Self-produced domestic electricity will reduce dependency on electricity imports and serve increasing demand for household and industrial electricity.

The minimum wage for workers in the textile, garment and footwear industries has been finalized and will be effective from January 1, 2017 onward. The minimum wage rises to USD 153 a month, USD 5 higher from the 2016 rate. Workers who are paid by piecework will receive a minimum wage even if the actual quantities produced fall below the minimum rate. The USD 148 minimum rate is set for workers during a probationary period before adjusting to a higher rate later.

Cambodia's Commune Election coming in June this year will be worth keeping an eye on. The Cambodia People's Party (CPP)-controlled National Assembly, led by Prime Minister Hun Sen, passed an amended law giving the government and courts the unconstitutional power to suspend and dissolve political parties if they do not fulfill duties or violate the law. The revision also prohibits any candidate with a conviction and non-suspended prison sentence from becoming president or deputy president, and lets the Supreme Court block the leadership of a dissolved party from engaging in any political activities for up to 5 years. It is clear that these changes are aimed at the Cambodia National Rescue Party (CNRP), the current opposition party, which gained significant popularity in the previous national elections in 2013. The National of Election Committee (NEC) has announced that registration deadline for political parties will be during March 3 to 5 and will issue the finalized list of parties and their candidates later on March 18. The new law is seen as preventing equal competition among parties and could possibly pose a threat to democracy in Cambodia.

The United States Agency for International Development (USAID) and the International Fund for Agricultural Development (IFAD) jointly approved an agreement to allocate USD 158 million to support Cambodia's Agricultural Strategic Development Plan. The agreement will oversee the development and enactment of policies, with the Cambodian government to improve the agricultural sector as a critical part of the country's economic growth. It will also help businesses – from farmers to traders to local store owners – work better together so that Cambodia's agricultural products can compete in the local market and earn the greatest prices. Through the US government's Feed the Future program, USAID plans to invest approximately USD 40 million to support Cambodian agricultural sector development while IFAD is providing both grants and loans to support the Royal Government's agricultural development plan totaling USD 118 million dollars over five years.

The Poipet Special Economic Zone (PPSEZ) is soon to be completed and Thai energy providers will supply power to this industrial area. Under the Cambodian government's industrial policy, the PPSEZ aims to attract more manufacturers of high value-added products, especially vehicle assembly and electronics, and plans will require a reliable electricity supply. In this late stage of PPSEZ construction, Thai company B Grimm Power Plc will develop and operate a power transmission infrastructure to PPSEZ and potential investors, with an initial investment of between USD 2 to 3 million.

Cambodia's insurance industry saw record growth in 2016 and was valued at USD 113 million, according to a report from the Insurance Association of Cambodia (IAC). The report stated that gross premiums grew by 35.6%, reaching USD 113.6 million last year, compared to USD 83.7 million in 2015. Insurance in Cambodia continues to expand and strong overall growth was due to increased coverage in the following areas: property and fire insurance, medical insurance, engineering insurance, personal accident insurance, and marine, aviation and transport insurance. Apart from general insurance, the life insurance industry has also been playing a crucial role in building a healthier financial future for Cambodian families, and driving the long-term economic development of the country. Cambodia's insurance penetration rate is the lowest in ASEAN. In addition, real estate and construction insurance are also rapidly showing an upward trend as many high-rise buildings continue to flourish, increasing the need for property insurance.

Cambodia's clothing exports might be at risk from Brexit as the country's textile and apparel export sectors could face both short and long-term risks from the U.K. leaving the EU. Within the 28 EU member states, the U.K. is Cambodia's most significant market and has been one of the top buyers of its products since 2010. The U.K. made up nearly one-third of Cambodia's garment and footwear exports to the entire EU market in 2016. The significant depreciation of the British pound means that imported products have become more expensive for British consumers. In the longer-term, Cambodia could face risks from a loss of the preferential access the country enjoys under Everything But Arms (an initiative of the EU under which all imports to the EU from the Least Developed Countries are duty-free and quota-free, except for armaments). The U.K. could revert to World Trade Organization (WTO) rules, and Cambodia may lose its special access to the U.K. market unless the Cambodian government can firmly arrange a new free trade agreement with the U.K.

Industry Update

- **Agriculture:** The use of agricultural machinery in Cambodia has risen noticeably. A report released by the Agriculture Ministry showed that the use of agriculture machinery rose to about 91% in 2016, compared with 83% in 2015, while the use of cattle in farming was 8.8% last year. Ouk Makara, director of the Cambodian Agricultural Research and Development Institute, said the increasing use of tractors and other agricultural machinery was a good sign because it cuts costs and saves time. Labor is more expensive than using machinery for farming – especially harvesting rice paddy since the cost of using labor is USD 150 for a hectare of rice paddy while it is only USD 100 for a hectare of rice paddy using machinery.
- **Banking & Finance:** Telepin Software, a global leader in mobile money transaction platforms, announced that it is now powering the mobile financial platform for Wing, Cambodia's leading mobile banking services provider. Wing focuses on delivering financial inclusion via mobile banking services to the unbanked and underbanked.
- **Banking & Finance:** Chailease Royal Leasing Plc., a joint venture leasing company between the Royal Group of Companies and Taiwan-based Chailease Holding Co. – one of Asia's leading finance companies with operations in Taiwan, China, Vietnam, the US, Thailand and Malaysia –officially launched financial services for small and medium size enterprises (SMEs). According to the National Bank of Cambodia, by the end of 2016 there were 12 financial leasing companies in Cambodia with total assets of about USD 156 million.
- **Building Material:** SCG plans to start commercial operations at 1.8 million tons/year in the first quarter of 2017. SCG estimates that domestic demand in Laos is around 400,000 tons/year and this is expected to grow 6-7% in 2017 by state funding in infrastructure projects. This year half of the plant's output will serve local consumption while the rest will be exported to northeastern Thailand.
- **Electrical & Electronics:** The sales of home appliances in Cambodia increased to USD 120 million at the end of 2016. Though sales growth was lower than the previous year, total spending remained high due to improving living conditions and flexible financing options. In addition, electronics exports to Japan reached USD 1.2 billion, an increase of 24.4%YOY.
- **Food & Beverage:** The Coca-Cola Co has inaugurated a new facility in Cambodian capital Phnom Penh as it seeks to grow capacity in the country. The site is operated by Cambodia Beverage Co., the local bottling unit of Coca-Colas Bottling Investments Group (BIG). The bottling facility is part of the company's USD 100m investment in Cambodia from 2015 to 2018.
- **Food & Beverage:** Thailand wishes to expand halal food production in Cambodia to serve Muslim communities and tourists. The plan will be included in a policy on halal products to be presented to Cambodia's Council of Ministers for approval in 2017. Moreover, Thailand will also support its investment by training Cambodian officials to

understand the processes involved in halal production. Cambodia started to develop and prepare halal products on a small scale since 2008 and now calls on Thai halal expertise to boost the industry.

- **Telecom:** Cellcard, a leading telecom company, has engaged Nokia to expand and modernize the operator's 3G and LTE networks to help meet surging mobile broadband demand. As part of the agreement, Nokia will deploy around 1,500 new cell sites to expand the operator's mobile broadband reach. Cellcard first launched LTE in Phnom Penh in 2015 and has since been expanding the network to other areas. Nokia will also provide its global services and Single RAN technology to allow Cellcard to host simultaneous 2G, 3G and 4G operations on a single platform, as well as IP edge routers to modernize the network for the arrival of 5G and the Internet of Things (IoT).
- **Real Estate:** Century 21 Cambodia signed a memorandum of understanding (MoU) with the University of Economics and Finance (UEF), aimed at strengthening the real estate sector's human resources by getting those involved licensed and making them more professional. Kuy Vat, Chairman and CEO of Century 21 Cambodia, said the main purpose of the deal with the university is to create one professional and recognized standard in the real estate sector through training, as well as providing licenses for property agents or companies certified by the Ministry of Economy and Finance.
- **Tourism:** Cambodia and Laos officially inaugurated a newly expanded border crossing that authorities see increasing trade and tourism between the two countries. The Trapeang Kriel-Nong Nokkhiane border gate, connecting Cambodia's northern Stung Treng province to Laos's southern Champasak province, is the sole official land crossing between the two countries, and an artery for bilateral trade and investment.
- **Power:** The Electricity Authority Cambodia (EAC) has reported a 25% reduction in electricity imports in 2016 compared to 2015. As new domestic power plants come online, the EAC projects a further 20%YOY import drop in 2017. Currently, Cambodia has six hydropower plants and one coal-fired power plant.
- **Wholesale & Retail:** Siam Global House Plc. signed a joint venture agreement with a group of local investors in Cambodia whose businesses include the hotel, industrial estate, and real estate development sectors. The company would establish Global House Cambodia Co. Ltd. to operate modern trade retail stores and related businesses to distribute building materials and home improvement products in Cambodia. They plan to establish a minimum of ten branches in Cambodia. The company also established Global House Estate Co. Ltd. to own and manage the land used to develop Global House stores in Cambodia.

Key Indicators

Domestic Demand	Share of GDP *	Unit	2012	2013	2014	2015	2016E	2017F
Real GDP		%YOY	7.3	7.4	7.1	7.0	7.0	6.9
Household consumption	79%	%YOY	4.6	5.8	4.5	7.8	-	-
Government consumption	5%	%YOY	5.7	5.2	2.4	4.0	-	-
Fixed capital formation	21%	%YOY	17.4	15.3	9.1	2.9	-	-
Consumer price (end period)		%YOY	2.5	4.7	1.0	2.9	3.0	-
Policy rate (end period)		%	1.33	1.34	1.42	1.42	1.45	
USDKHR (period average)			-	4,032.5	4,040.2	4,066.1	4,077.8	

* Share of 2015 GDP

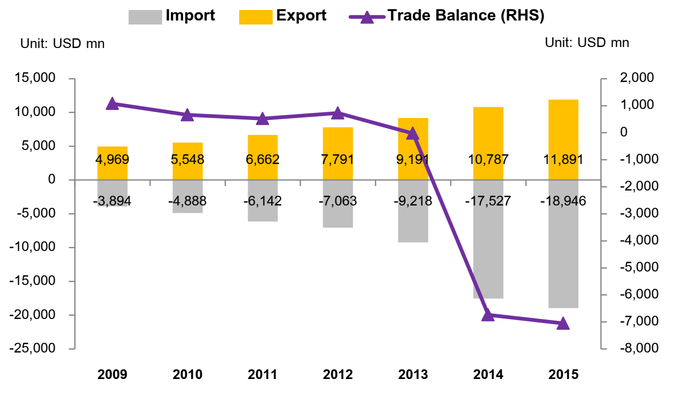
External Sector	Unit	2011	2012	2013	2014	2015	%YOY
Exports	USD mn	6,662	7,791	9,191	10,787	11,891	10.2
Textiles	USD mn	4,295	4,648	5,504	5,864	6,994	19.3
Electrical products	USD mn	6	42	244	53	321	505.9
Imports	USD mn	6,142	7,063	9,218	17,527	18,946	8.1
Textiles	USD mn	2,362	2,731	3,114	4,064	4,275	5.2
Machinery/Electrical	USD mn	682	699	1,025	1,478	1,183	-20.0
Exports from Thailand	USD mn	2,693	3,778	4,256	4,525	4,958	9.6
Foreign direct investment	USD mn	795	1,441	1,345	1,730	1,701	-1.7
Net TDI from Thailand	USD mn	-14	117	135	124	38	-69.4
Visitor Arrivals	Person mn	2.9	3.6	4.2	4.5	4.8	6.1

Note: 1) %YOY (year-on-year percentage change) of the YTD value
2) Exports and Imports are based on IMF data.
3) FDI reflects foreign direct investment (net inflows).
4) Net TDI from Thailand reflects Thai direct investment abroad.

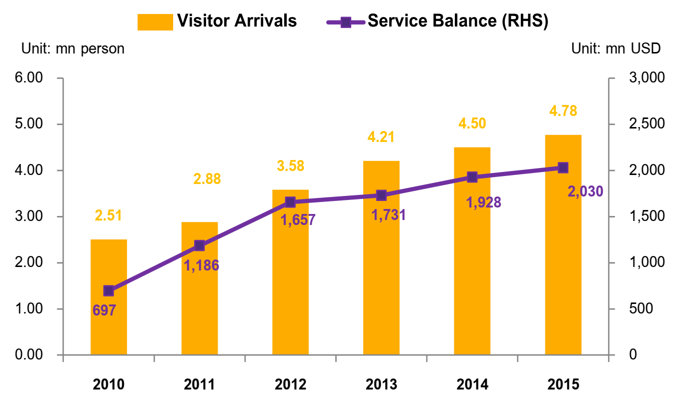
Increase	Decrease	Stabilize

Sources: ADB, Bloomberg, CEIC, CIA, IMF, World Bank, Harvard, MIT, the Government of Cambodia, and the National Bank of Cambodia

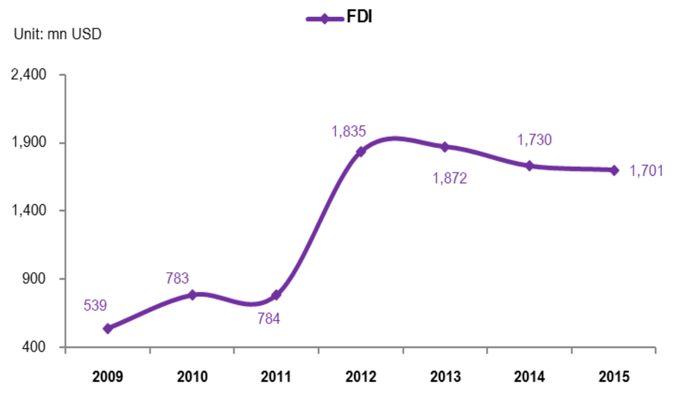
International Trade



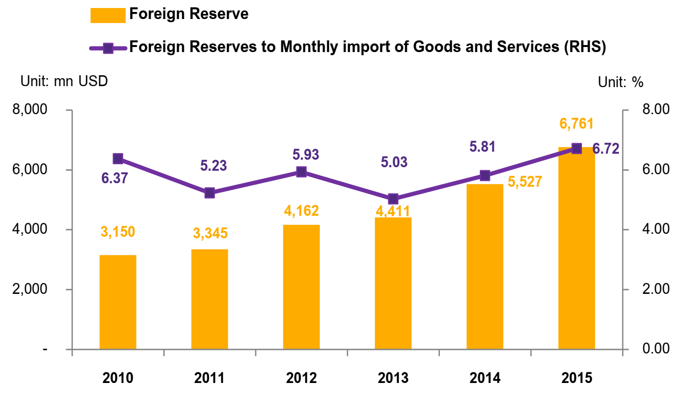
Tourism and Services



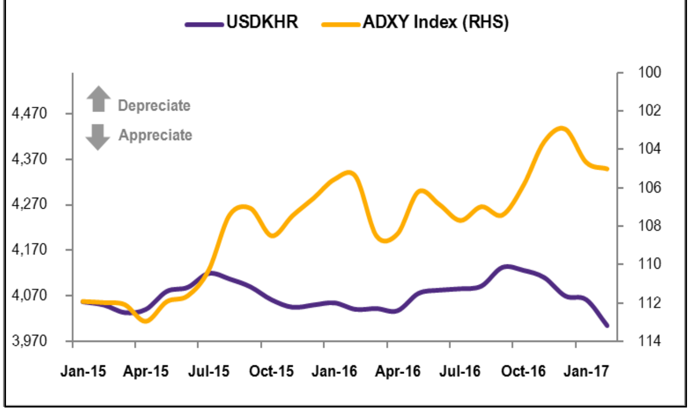
Foreign Direct Investment



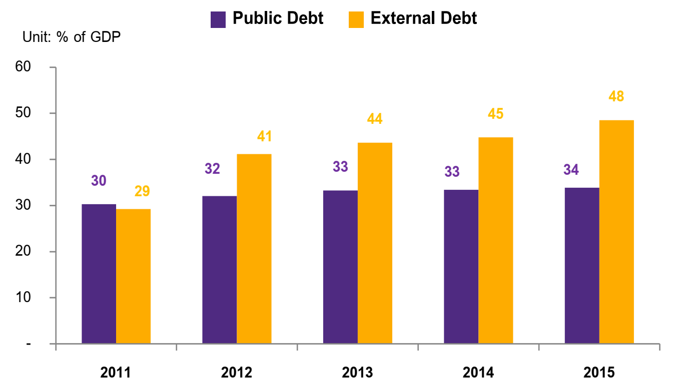
Foreign Reserves



Khmer *Riel* and Asia Dollar Index



Public Debt and External Debt



Source: ADB, Bloomberg, CEIC, CIA, IMF, World Bank, Harvard, MIT, the Government of Cambodia, and the National Bank of Cambodia

SCB Economic Intelligence Center

Laos Monitor by EIC

2 March 2017

Macroeconomic Update

The IMF projected GDP growth in Laos at 6.9% in 2016, a slowdown from 7.5% in 2015 due to economic downtrends with major trade partners, declining metal prices, and poor agricultural performance caused by bad weather. Headline inflation accelerated to approximately 2.5% in December 2016 because of higher oil prices. Despite steady economic growth, the country has developed several vulnerabilities; surging public debt and a weak banking sector led by under-capitalized state-owned banks experiencing a rising number of nonperforming loans.

For its 2017 outlook, the IMF forecasts GDP growth at 6.8%, with major support from hydropower plants and transportation investment. The country will see a rising current account deficit led by higher imports for hydro-electric and railway construction projects, but trade deficits will be gradually neutralized by 2021 with expanding electricity exports.

The second phase of the Laos-Thailand railway will resume construction in 2017 after the suspension in 2011. The line will expand to reach central Vientiane from the station in Thanalaeng city, which is also expected to be included in the Laos-China railway. Construction will be complete in around two years and the line extension will add a significant number of passengers and tourists. The project was financed with more than USD 25 million from Thailand, consisting of 30% in grants and 70% in low-interest loans.

Vientiane's sustainable urban transport project, Bus Rapid Transit (BRT), has received a total of USD 70 million in financial support. Supporters are the OPEC Fund for International Development (OFID), the European Investment Bank, and the Asian Development Bank (ADB), which agreed to provide technical assistance. The project includes a better car park, new traffic management, and 24-station BRT to improve public transport in the Vientiane central area. Construction is expected to be completed by 2021.

Regarding education and human development, Savannakhet University is currently preparing to be the first model university in Laos for business administration and economic studies. The university is expected to be a model in terms of infrastructure, buildings, library, and curriculum, with a budget of around

Currencies

FX	Last	%MOM	%YTD
USDLAK	8202.5	0.24%	0.23%
EURLAK	8681.1	-0.69%	0.84%
JPYLAK	72.9	1.99%	4.19%
THBLAK	235.0	1.47%	2.88%

as of February 28, 2017

Facts and Figures

Country	Laos
Population (2016 est.)	7.02 million
Labor force (2016 est.)	3.5 million
GDP (2016 est.)	13.72 USD billion
GDP per capita (2016 est.)	1,921 USD
GDP by sector (2016 est.)	Agriculture: 21.3% Industry: 32.5% Services: 39.4%
Top exports (2016)	Copper 31% Electricity 25% Fruits & Nuts 9% Vegetable 5% Gold 5% Cereal 4%
Export partners (2016)	Thailand 35% China 25% Vietnam 14% India 4% Japan 2%
Top imports (2016)	Vehicles and parts 18% Energy/Mineral fuels 14% Agro products 12% Iron and steels 12% Machinery/Electrical 9%
Import partners (2016)	Thailand 66% China 16% Vietnam 7% Korea 2% Japan 2%

USD 31 million provided by the government and USD 40 million funded by the ADB. Completion is expected by 2020, or no later than 2025. Presently, Savannakhet University has more than 4,120 students in six faculties. Most students study business administration or agricultural sciences.

The government of Laos will set up a committee to investigate and calculate the actual amount of petrol required by 16 major concession projects that continue to benefit from fuel tariff exemptions. Although the government announced in August last year that it would halt the provision of tariff-free fuel to large-scale investors, these 16 projects were excluded. The fuel tariff exemption is part of the government's efforts to ensure that fuel imports comply with the country's laws, and to close all gaps that allow investors or project developers to take advantage of the scheme. By revoking the privilege, the government also hopes to safeguard that more revenue can be generated from fuel imports and transparently included in the national budget.

Toyota Tsusho, Internet Initiative Japan, and Mitsubishi UFJ Morgan Stanley Securities announced the start of a joint demonstration data center project in Laos. With integrated cloud infrastructure and security solutions, the new data center will serve as a cornerstone for Laos' IT foundation and contribute to the development of e-government applications. Additionally, the data center will be utilized for training future generations of IT engineers, industrial development, and a broad range of other initiatives. The new data center will initially provide much-needed network capacity for government institutions. All funding was provided by Japan under a program run by the government-backed New Energy and Industrial Technology Development Organization, or NEDO. Once the trial phase ends in February 2018, the data center will be handed over to the Laotian government.

Laos' patent authority has decided to recognize patents on technologies that have been granted in Japan. Thanks to an arrangement with Japan's Patent Office and Laos' Intellectual Property Department, Japanese companies will be able to have their technologies protected in the country. Japanese businesses have been inconvenienced by Laos' inadequate application-screening system. An increasing number of Japanese businesses are setting up operations in Laos, attracted by relatively cheap labor and industrial parks that offer tax breaks. Toyota Boshoku, maker of auto interior parts, mostly for Toyota Motors, and precision machinery producer Nikon are two notable Japanese companies that have relocated plants from Thailand to Laos enjoying this benefit.

Industry Update

- **Agriculture:** Unprocessed Laotian farm products raised and grown by farmers and Vietnamese investors in 10 Laotian provinces sharing borders with Vietnam will enjoy tariff and value-added tax exemptions when exported to Vietnam. The Laotian Ministry of Agriculture and Forestry recently issued an announcement detailing the new policy under the border trade agreement that the Laotian and Vietnamese governments have signed in a move to increase the volume of border trade. Any farm product raised, grown or produced by farmers in Laos bordering districts or by Vietnamese businesses in neighboring Laotian provinces will enjoy tariff exemptions when exported to Vietnam. Vietnamese businesses have registered USD 5.1 billion of investment in Laos, ranking the third among foreign investors in the country. Two-way trade between the two countries in 2016 hit USD 801 million.
- **Agriculture:** China has agreed to purchase 20,000 metric tons of organic rice per year from Laos, according to a statement by Prime Minister Thongloun Sisoulith. Approximately 4,000 tons of sticky rice and non-glutinous rice has already been delivered to China as part of an earlier agreement to export 8,000 tons of rice from Laos to China. This agreement was recently amended, with an increase from 8,000 tons to 20,000 tons. The rice bound for China is grown in Savannakhet and Champasak provinces, with only the rice mill in Savannakhet Province able to produce rice of a high enough quality to meet Chinese standards.
- **Food & Beverage:** Laos is focusing on enhancing the competitiveness of food in micro, small, and medium sized enterprises (MSMEs) through the development of marketing strategies targeting domestic and overseas markets by ways of lectures and consultations on branding, marketing, and packaging of food products. Despite having great potential with rich natural resources, a strategic location bordering five major markets, and a competitive labor force, the food industry of Laos remains underdeveloped mainly due to the lack of infrastructure, specifically packaging and processing technologies.
- **Food & Beverage:** Popular Korean fast food chain, Lotteria, has opened a second branch at Dongdok, a new residential area, near the National University of Laos. This restaurant chain is now in the process of transformation from a fast food restaurant into a cafe-style environment, attempting a bold change to build a new image as a Quick Service Restaurant. Lotteria plans to open 14 branches throughout Laos over the next five years. The expansion of new food chain branch in Laos shows the company's confidence in more urbanization and purchasing power in Vientiane.
- **Power:** Laos expects to be able to export 100 megawatts of electrical power to Malaysia by September, according to the office head of the Laotian Ministry of Energy and Mines. The Laotian government launched the first phase of a pilot project to sell 100 MW of electricity to Malaysia via Thailand's national grid. Laos also expects to

export another 100 MW of power to Singapore via Thailand and Malaysia's network by 2020 as the second phase. Laos is expected to generate 10,000 MW by 2020. Up to 75% of this is expected to be exported, as domestic demand is forecast at only 25%. By 2030, Laos' power-production capacity is expected to rise further to 20,000 MW.

- **Logistics:** The 50-year-old domestic terminal at Wattay International Airport is to undergo major renovations that will help the airport cope with increasing passenger numbers. As part of an assistance loan provided by the Japan International Cooperation Agency (JICA), the domestic terminal will be fully renovated and redesigned to meet demands and safety standards. Estimates place the number of passengers making use of the domestic terminal at up to 2 million people by 2023.
- **Hotel:** InterContinental Hotel Group marked its entry into Laos with the opening of Crowne Plaza Vientiane. Crowne Plaza Vientiane features premium guest rooms and suites decorated with Laotian elements, a variety of amenities, as well as restaurants and bars for a wide range of dining experience. Common amenities include a ballroom and six fully equipped meeting spaces that can be tailored to suit various needs, an outdoor pool, a 24-hour fitness center, free Wi-Fi and a spa.
- **Hotel:** Banyan Tree Holdings has opened its second resort in Laos, as the Singaporean hotel and resort operator continues to look for ways to boost its profit with a mix of tried-and-true tourist destinations and exotic new locations. The company's existing Laotian resort, the Maison Souvannaphoum Hotel, was opened in 2005 as part of its Angsana brand.
- **Hospital:** Bangkok chain hospital (BCH) is setting up a new subsidiary to operate a private hospital in Vientiane, the capital of Laos. The registered capital of the new subsidiary is THB 515 million. BCH will hold 76% with the remainder held by the local partner. The hospital will serve cash patients, targeting Laotians in the mid-to-upper income segment, expatriates and tourists.
- **Hospital:** Bangkok Dusit Medical Services (BDMS) plans to open 2 branches of hospital in Cambodia.
- **Telecom:** The first local smartphone brand will be introduced to shops and agencies in the Laotian capital and provinces across the country this month, the state-run Vientiane Times reported. ALO, the phone brand, is the product of ALO Technology Sole Co.

Key Indicators

Domestic Demand	Share of GDP *	Unit	2012	2013	2014	2015	2016E	2017F
Real GDP		% YOY	7.9	8.0	8.0	7.5	6.9	6.8
Household consumption	62%	% YOY	7.9	17.0	5.1	0.3	-	-
Government consumption	14%	% YOY	35.1	49.1	-1.2	7.9	-	-
Fixed capital formation	33%	% YOY	34.9	10.5	8.0	14.8	-	-
Consumer price (end period)		%	4.3	6.4	4.1	1.3	1.1	
Policy rate (end period)		%	5.0	5.0	5.0	4.5	4.25	
USDLAK (period average)			-	7,837.5	8,051.0	8,129.7	8,124.2	

* Share of 2015 GDP

External Sector	Unit	2011	2012	2013	2014	2015	%YOY
Export	USD mn	3,120	3,326	3,883	4,687	4,386	-6.4
Copper	USD mn	1,201	1,192	1,176	1,166	74	-16.5
Wood Products	USD mn	615	608	982	1,736	601	-65.4
Import	USD mn	4,642	6,382	7,320	8,009	7,568	-5.5
Machinery/Electrical	USD mn	766	1,230	1,882	2,110	1,317	-37.6
Vehicle and parts	USD mn	796	1,128	1,141	1,070	1,106	3.4
Export from Thailand	USD mn	2,768	3,588	3,758	4,033	4,237	5.1
Foreign Direct Investment	USD mn	301	294	427	913	1,079	18.2
Net TDI from Thailand	USD mn	-102	249	206	284	464	63.2
Visitor Arrivals	Person mn	2.7	3.3	3.8	4.2	4.7	12.6

Note: 1) %YOY (year-on-year percentage change) of the YTD value

2) Exports and Imports are based on IMF data.

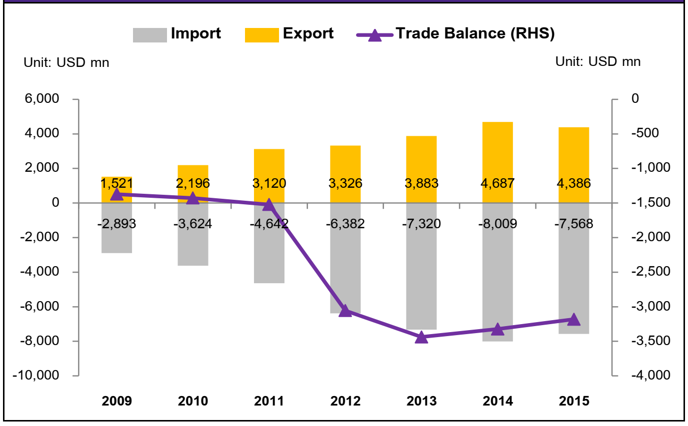
3) FDI reflects foreign direct investment (net inflows).

4) Net TDI from Thailand reflects Thai direct investment abroad.

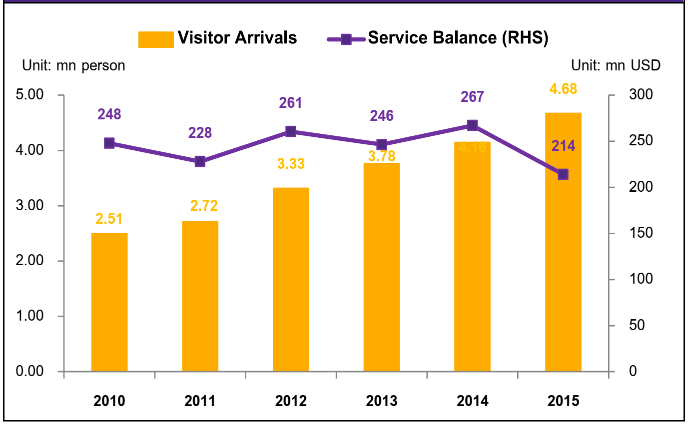
Increase	Decrease	Stabilize

Sources: ADB, Bloomberg, CEIC, CIA, IMF, World Bank, Harvard, MIT, the Government of Laos, and Bank of the Lao PDR

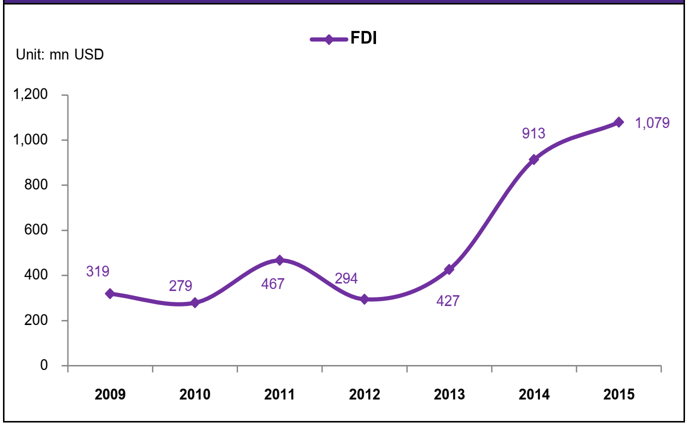
International Trade



Tourism and Services

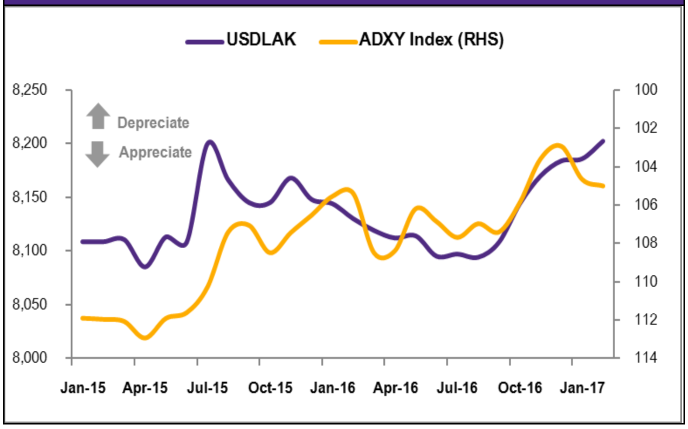


Foreign Direct Investment

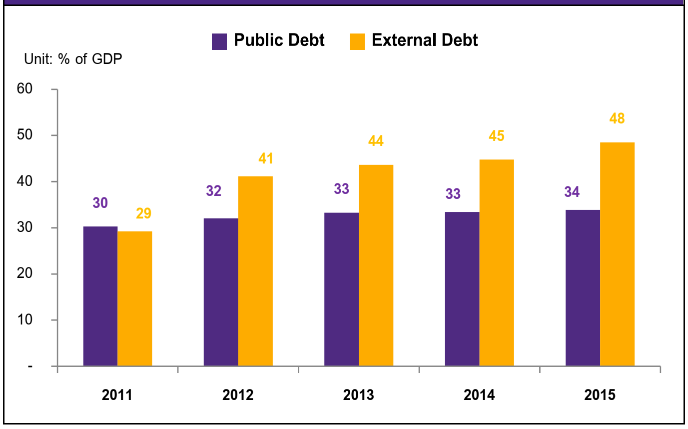


Foreign Reserves

Lao Kip and Asia Dollar Index



Public Debt and External Debt



Source: ADB, Bloomberg, CEIC, CIA, IMF, World Bank, Harvard, MIT, the Government of Laos, and Bank of the Lao PDR

SCB Economic Intelligence Center

Myanmar Monitor by EIC

2 March 2017

Macroeconomic Update

According to the IMF, Myanmar's economy is forecast to grow at 6.5% in FY2016, revised downward from 7.3%, but is projected to pick up to 7.5% in FY2017. The downgrade was partly the result of domestic factors, including a decline in foreign investment, slow growth in the agricultural sector, and a halt in high-rise construction in Yangon. Lower demand from trading partners and declines in commodity prices were also partly to blame. The agricultural sector is gradually recovering from the effects of Cyclone Komen in 2015 and expected to grow over 4% in 2016. With a decline in global crop prices there was a sharp drop in domestic prices in the last quarter of 2016, making inflation lower to 3.5% before rising back to 6.6% in December 2016 due to the oil price recovery. The current account deficit is at 6.5% of GDP from falling exports. Because of the current account deficit, slowdown in FDI inflows, and further appreciation of the USD, the Myanmar Kyat reached 1,375 per USD at the end of 2016, hitting its highest depreciation rate since April 2012. Despite external vulnerabilities and internal conflicts, the government has made efforts to improve the business environment via the amendment of laws and agreements on business and border trade. Some of the government's financial reforms drew praise, particularly its efforts to fund the budget deficit through bond sales rather than lending from the Central Bank, a longstanding practice that contributes to high inflation. Going forward, many macroeconomic risks remain, including a narrow production base, vulnerability to natural disasters, and fluctuating prices for international commodities.

Myanmar aims to improve its trade volume this year, and the government targets reducing the long-standing trade deficit by boosting exports. Zaw Min Win, president of the Union of Myanmar Federation of Chamber of Commerce and Industry, said that an unstable exchange rate, illegal trade, and limited productivity may deter Myanmar from achieving its target of tripling its trade volume during the government's term. Up until now, the kyat has continued to depreciate against the US dollar. Specifically, kyat depreciation depends largely on such factors as a rise in the trade deficit, decreasing FDI inflows, USD appreciation against many currencies after the U.S. Presidential elections, continuity of a budget deficit, and the strengthening of illegal players in the exchange market. According to the chamber's head, the government needs to encourage agricultural business and put more emphasis on value-added

Currencies

FX	Last	%MOM	%YTD
USDMMK	1364.5	0.70%	0.52%
EURMMK	1432.8	-1.20%	0.34%
JPYMMK	12.0	1.77%	3.71%
THBMMK	38.9	-1.53%	2.72%

as of February 28, 2017

Facts and Figures

Country	Myanmar
Population (2016 est.)	56.89 million
Labor force (2016 est.)	37.15 million
GDP (2016 est.)	68.28 USD billion
GDP per capita (2016 est.)	1,307 USD
GDP by sector (2016 est.)	Agriculture: 26.3% Industry: 27.5%% Services: 46.2%
Top exports (2016)	Gas 32% Garmet 11% Matpe 7% Pedesein 4% Rice 4% Pesington 3%
Export partners (2016)	China 43% Thailand 21% India 12% Singapore 11% Japan 4%
Top imports (2016)	Transport Equipment 25% Base Metals 12% Electrical Machinery 8% Refined mineral oil 8% Plastic 4% Vegetable oil 3%
Import partners (2016)	China 36% Singapore 18% Thailand 13% Malaysia 11% Japan 10%

agricultural exports rather than depending only on resource-generated exports. Farmers should be supported with the government's incentives.

A survey by global strategy consultant Roland Berger has highlighted optimism in the business community as Myanmar makes progress toward economic reform, including creating a better investment environment. The survey found that 80% of respondents entered the Myanmar's economy because of its status as a frontier market, 78% because of its large and growing population, and 67% because of the government's commitment to reform. The survey's findings, in favor of greater regulatory and legislative certainty as well as transparency, align with those who sharply criticized the lack of detail in the 12-point, three-page economic policy released by the NLD government in July 2016.

The new Myanmar Companies Act and Competitive Law are expected to be effective at the beginning of FY2017 in April. The new Myanmar Companies Act is now under the Parliament consideration process, replacing the previous Myanmar Companies Act 1914 containing many outdated stipulations that limit business growth. In addition to simplifying regulations for small and family-owned businesses and improving corporate governance, the Act will allow foreign investors to hold shares in Myanmar's firms, and to attract more international funding and expertise. However, only firms with over 35% foreign shareholders are defined as foreign-owned companies in this new act and the ratio can be changed as the economy develops. This is also the first time the Act will allow foreign investors to buy shares on the Yangon Stock Exchange. Foreign traders with high purchasing power will help boost Myanmar's stock market. A Competitive Law already came into force this February to move Myanmar into the global anti-trust community following other ASEAN members. The Competition Commission was established to implement and enforce the anti-trust regime, while the Ministry of Commerce is responsible for publishing the relevant rules and regulations as well as supplementing and providing guidance on the law. The new law will prohibit certain anti-competitive acts such as abuses of dominance, mergers, and unfair trade practices with strong penalties potentially applicable. These two laws will make the business environment in Myanmar reach higher standards and favor more investment and business operations.

On 18 October 2016 President Htin Kyaw enacted the new Myanmar Investment Law that will come into force on April 1, 2017, replacing the 2012 Foreign Investment Law and the 2013 Myanmar Citizen Investment Law. Previous separate legal regimes created the perception of an uneven playing field for foreign and domestic investors. The new law is an attempt by the government and the legislature to harmonize these investment regimes and improve the ease of investing in Myanmar by streamlining and simplifying investment procedures. This sends a positive and welcome signal to both foreign and domestic investors, although the success of the endeavor will depend on the quality of subsidiary legislation that is still being finalized and the efficiency with which relevant governmental agencies implement it. Myanmar has also acceded to the New York Convention on the recognition and enforcement of foreign arbitral awards and has enacted a new Arbitration Law, which is based closely on the United Nations Commission on International Trade Law Model Law on International Commercial Arbitration.

Draft law concerning Foreigners and Foreign Worker Law would rather discourage oversea workers staying and working in Myanmar. The proposed laws require foreigners living and working in Myanmar to obtain a Foreigner Registration Certificate (FRC) and undergo medical examination within seven days of arrival. Foreigners will also need approval from authorities for an absence from their registered residence for more than 24 hours as the laws impose restrictions on traveling or relocating. Big business groups in Myanmar see the draft laws failing to improve and even worsen working conditions for foreigners.

The new energy master plan will amend existing laws to allow local and foreign investors to have stakes in electricity production, transmission, and distribution in the Yangon Region. Currently, the Union Government is responsible for almost all electricity production and sells at half the actual cost. As costs of power production and energy consumption in the Yangon region continue to increase, a more sustainable plan is needed. The process of creating a new master plan will be kept open to keep all stakeholders well-informed of developments. Foreign investors will also be invited to make proposals. By allowing the private sector a role in energy production, this master plan would be able to create a competitive investment environment, promote the efficient use of resources, and minimize environmental and social impacts on the country.

Myanmar and Thailand are continuing their cooperation to enhance economic integration and linkage through cross-border trade. The Dawei Special Economic Zone (SEZ) is soon to be restarted again after a long delay. Once the contract with Italian-Thai Development (ITD) has been finalized, construction will continue to develop a deep sea port, industrial estate, and road and rail links to Thailand. Sixteen business Memoranda of Understandings

(MoUs) were signed to boost cross-border trade by improving existing channels and developing new routes. The Mae Sot-Myanwaddy border will be upgraded and Myanmar will set up another new SEZ in Myanwaddy. The plans, covering the next 2-3 years, will strengthen Myanmar-Thailand tourism and improve border trade activities.

The Asian Development Bank (ADB) will help Myanmar modernize its transportation infrastructure, such as roads and ports, emphasizing public-private partnerships as key to promoting projects. Although the ADB provides guidance for individual projects, this will be the first time it serves as a strategic and operational adviser to an entire nation's transportation sector. The ADB's new tasks will include drafting laws concerning public-private partnerships and designing frameworks for subsidies and other incentives.

Myanmar will receive a JPY 94-billion (USD 824 million) soft loan from Japan for five infrastructure development projects. The MoU was signed by Deputy Minister for Planning and Finance Ministry U Maung Maung Win and Japanese ambassador to Myanmar Tateshi Higuchi. The Regional Development Project for Poverty Reduction (Phase 2) will receive JPY 24 billion (USD 210 million), the Yangon-Mandalay railway upgrade project JPY 25 billion (USD 219 million), the Yangon Region Water Supply System project JPY 25 billion (USD 219 million), the Cities' Electricity Distribution System Development project JPY 5 billion (USD 43 million) and the Agricultural sector and Rural Development project JPY 15 billion (USD 133 million), respectively.

Regarding the Rohingya situation, the four-month clearance operation in the Rakhine state near the Bangladesh border since 9 October 2016 has finally ended. The United Nations estimated that more than 1,000 Rohingya may have been killed and nearly 70,000 Rohingya have fled to Bangladesh during the operation. Several incidents of violence, including mass killings and gang rapes, may amount to crimes against humanity and possibly ethnic cleansing. The government denied almost all allegations and instead said only fewer than 100 people have been killed. Military forces remained in the troubled area to maintain peace and security. This puts Myanmar and Nobel Peace Prize Laureate Aung San Su Kyi in a difficult position and they have been intensively criticized. It is still uncertain how the world will react toward Myanmar's Rohingya solution.

Industry Update

- **Agriculture:** PepsiCo is contributing to the Myanmar's economy with an agriculture program through partnerships with UNESCO and Positive Planet. The program helps the company meet the need for potato supplies in Southeast Asia, and provides economic opportunities for local farmers. The company undertook a comprehensive approach to partner with farmers, train them on sustainable agriculture practices, and guide them on investments in infrastructure, such as drip irrigation technology that conserves water usage, minimizes the use of fertilizers and chemicals, and improves potato storage facilities. By the end of 2017, the company projects there will consist of 144 farmers producing 3,300 tons of potatoes annually, reflecting improvements in average yields in tons per acre over the last three growing seasons.
- **Automotive:** Nissan has begun automobile production in Myanmar, where sharp growth is expected in the new-vehicle market thanks to changes in regulations. The Japanese company said it is now assembling the Sunny mainstay sedan at a plant of local partner, Tan Chong Motor (Myanmar). The partners plan to build a few hundred units a year for sale in Myanmar.
- **Automotive:** Suzuki has begun the construction of the second assembly plant in the Thilawa economic zone in December 2016 with the production capacity of 10,000 cars a year, including the Ertiga, a seven-seat compact, by assembling imported parts.
- **Banking & Finance:** Myanmar's KBZ bank, one of the largest private commercial banks in Myanmar and Visa, an international payment provider, announced that they would jointly issue new payment cards, after receiving the permission to do so from the Central Bank of Myanmar. The Central Bank announced that international payment providers could now offer products and services in Myanmar's domestic market. Following the announcement, Visa and KBZ said that they would work together to launch financial services, including credit cards. Prior to this announcement, all international payment cards in Myanmar were US dollar-denominated. The shift to kyat-denominated credit cards will mean that card holders will not need to worry about currency exchange rates when using the cards domestically.
- **Construction:** Myanmar government has approved a proposal allowing the Thai government to help improve the condition of a 68-km road at a cost of THB 1.8 billion which serves as an important link in the East-West Economic Corridor (EWEC) transport route, according to the Transport Ministry. Myanmar also wants Thailand's assistance in developing more roads that will be included in the transnational route serving the EWEC. The EWEC will stretch from India to Vietnam via Myanmar, Thailand and Laos.
- **Food & Beverage:** Myanmar is set to increase its exports of farmed eels to Japan, the world's biggest consumer of the fish, under a joint venture between companies from the two countries. Under the agreement, Daiichi (Japanese partner) plans to invest

USD 1 million in the project while Anawa Devi (Myanmar partner) will provide land, research and basic infrastructure. The project will start on 1 hectare of land at Yangon Pauk Village in Dala Township, a southern part of Myanmar's business hub Yangon. The new business is also an attempt to establish eel cultivation in Myanmar.

- **Food & Beverage:** Japanese brewer Kirin Holdings is planning to buy Mandalay Beer for an estimated several hundred million yen in its latest effort to boost its presence in the Asia-Oceania region and as a part of enhancing their market position in Myanmar. The Mandalay Beer brand is the oldest brand in Myanmar.
- **Food & Beverage:** Sojitz Corporation has announced the start of eating-out business in Myanmar together with the country's biggest retailer, City Mart Group (CMG). They plan to develop food court brand in Yangon called "Tokyo Dining City." The first food court is scheduled to open in March 2017. It will be attached to one of CMG's high-end "Market Place" supermarkets within Sule Square, an office building complex which just opened in downtown Yangon. The court will mostly target office workers employed in the Sule Square building or in the vicinity, providing a full menu of primarily Japanese foods. The venture will collaborate with CMG's supermarket and hypermarket businesses to open more restaurants in a way appropriate to the location in question. They have set their sales target at more than JPY 500 million in sales by 2020.
- **Telecom:** Myanmar plans to hold an auction for 1800-MHz spectrum in March 2017. A government allocation of spectrum will allow operators Telenor Myanmar, Ooredoo Myanmar, and MPT to vastly improve 4G services. However, it is unclear whether the fourth entrant into the market, the consortium between Vietnam's military-run Viettel and a group of local ICT and other companies, will be included.
- **Telecom:** Myanmar has formally awarded its fourth and final nationwide telecoms license to a joint venture between Vietnam's telecom company Viettel and local ICT companies. The consortium has been awarded a 15-year license to offer nationwide services in a move sure to heat up competition in the burgeoning market. Under the terms of the consortium agreement, Viettel will hold a 49% stake, while local companies Myanmar National Telecom Holding Public and Star High Public Company will own 23% and 28% respectively. Viettel has committed to invest around USD 1.5 billion in Myanmar's telecoms sector.
- **Oil & Gas:** Myanmar's oil imports are surging to fuel a fast-growing economy and rebuild infrastructure. The fuels are mostly used in power generation, construction, and transportation, especially in heavy duty vehicles. Myanmar's diesel demand rose to 110,000 barrels per day (bpd) in October 2016 (29%YOY). Its gasoil imports are expected to reach 37,250 to 50,000 bpd in 2017, up from around 17,400 to 19,900 bpd in 2016.

- **Real Estate:** All commercial properties in Yangon are attractive with high occupancy rates since supply is limited and demand is strong. Colliers International Myanmar sees that it is difficult to enter the new supply in Myanmar as the regulations are unclear and land costs are steep, however, the opportunities are high as its GDP is one the highest in the region, plus the country also boasts abundant resources.
- **Tourism:** Myanmar eyes more investment in responsible tourism and promotes best-kept beach destinations. On the back of new investment regulations set to take effect this year, the government of Myanmar is promising to make ways for privileged and preferential treatment of investors in the tourism sector. Just last month, the Myanmar Union Parliament approved a proposal for the country to participate in the establishment of a tourism coordination office in the Greater Mekong. In accordance with figures from the Myanmar Ministry of Hotels and Tourism, FDI in Myanmar's hotel and tourism projects has reached almost USD 3 billion in 2016. Singapore (USD 1.6 billion) is on the top of the list as the biggest investor, followed by Thailand (USD 445 million) and Vietnam (USD 440 million). As of November 2016, FDI in the tourism sector had generated 56 projects, compared with 48 projects in 2015 that totaled USD 2.6 billion.
- **Tourism:** Myanmar and Thailand push 'one destination' as Thailand and Myanmar have vowed to stimulate tourism and raise the number of visitors between the neighboring nations to 1.5 million by 2020 as part of the "two countries, one destination" cooperative. The Tourism Authority of Thailand (TAT) signed a memorandum of understanding with the Myanmar Tourism Federation on February 3 to promote tourism between the countries. The TAT was ordered to study the possibility of launching joint marketing programs with Myanmar and other countries as well as the viability of code-sharing aviation.
- **Mining:** The Mining Law is expected to be submitted to the government for approval and implementation. Among other things, the revision to 1994 Mining Law will contain changes to profit-sharing arrangements between the government and companies, types of mining permits available, environmental management and land rehabilitation plans, and open the sector to foreign investment through joint ventures.

SCB Economic Intelligence Center

Key Indicators

Domestic Demand	Share of GDP *	Unit	2012	2013	2014	2015	2016E	2017F
Real GDP		% YOY	7.3	8.4	8.0	7.3	6.5	7.5
Household consumption	50%	% YOY	1.4	11.9	2.5	-	-	-
Government consumption	18%	% YOY	90.7	12.8	33.8	-	-	-
Fixed capital formation	35%	% YOY	14.9	6.4	18.3	-	-	-
Consumer price (end period)		%	4.7	6.3	7.5	10.7	6.6	6.3
Policy rate (end period)		%	10.00	10.00	10.00	10.00	10.0	10.0
USDMMK (period average)				933.9	984.3	1,163.4	1,234,8	

* Share of 2015 GDP

External Sector	Unit	2011	2012	2013	2014	2015	%YOY
Export	USD mn	8,330	8,267	10,423	22,495	12,681	-43.6
Energy	USD mn	3,146	3,509	4,030	5,033	,983	-1.0
Precious stones	USD mn	799	323	1,225	12,429	2,396	-80.7
Import	USD mn	13,720	17,072	20,488	24,429	24,517	0.4
Vehicles and parts	USD mn	1,530	2,594	2,638	2,612	3,492	33.7
Electrical products	USD mn	842	1,223	1,882	2,654	2,610	33.7
Export from Thailand	USD mn	2,846	3,127	3,788	4,239	4,175	-1.5
Foreign Direct Investment	USD mn	2,520	1,334	2,255	1,398	3,137	124.4
Net TDI from Thailand	USD mn	355	334	751	406	744	83.3
Visitor Arrivals	Person mn	4.6	7.9	20.3	30.8	46.8	51.9

Note: 1) %YOY (year-on-year percentage change) of the YTD value

2) Exports and Imports are based on IMF data.

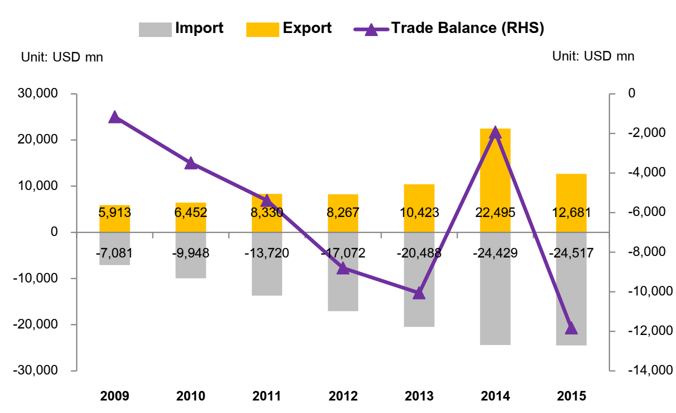
3) FDI reflects foreign direct investment (net inflows).

4) Net TDI from Thailand reflects Thai direct investment abroad.

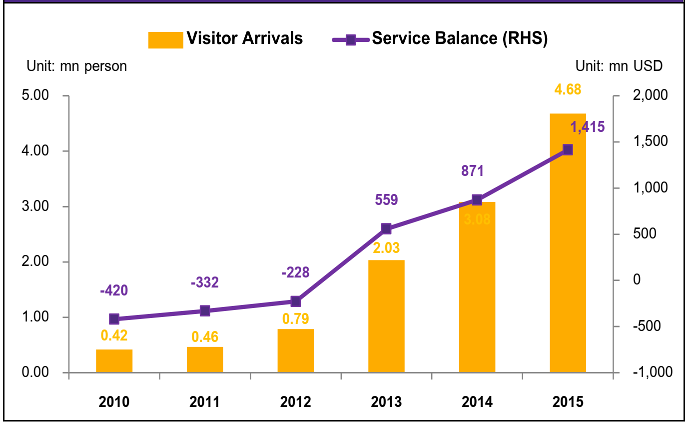
Increase	Decrease	Stabilize

Sources: ADB, Bloomberg, CEIC, CIA, IMF, World Bank, Harvard, MIT, the Government of Myanmar, and the Central Bank of Myanmar

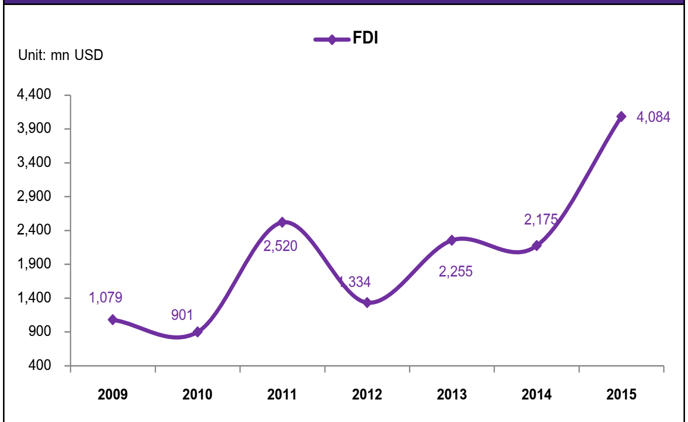
International Trade



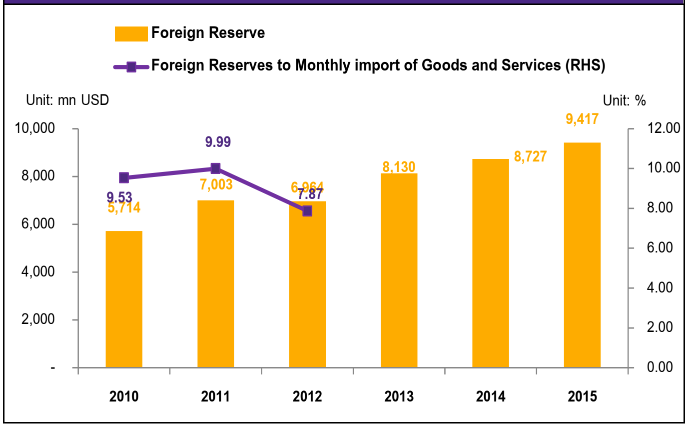
Tourism and Services



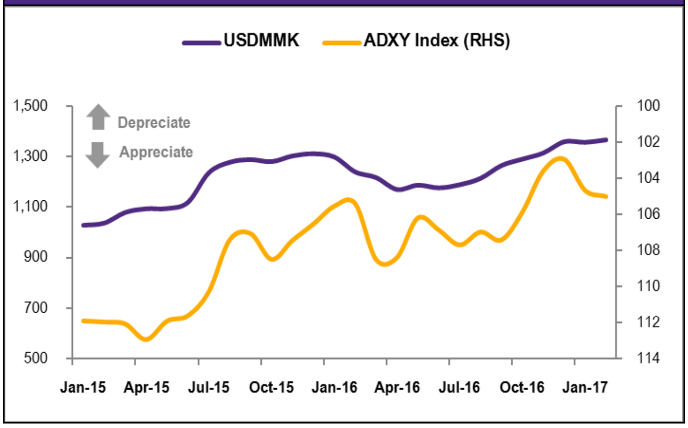
Foreign Direct Investment



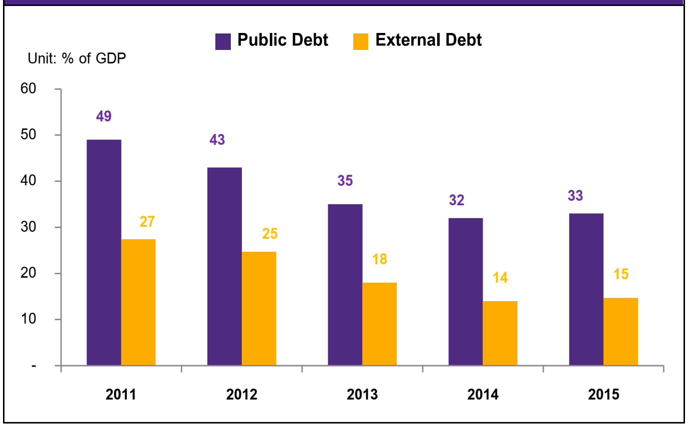
Foreign Reserves



Myanmar Kyat and Asia Dollar Index



Public Debt and External Debt



Source: ADB, Bloomberg, CEIC, CIA, IMF, World Bank, Harvard, MIT, the Government of Myanmar, and the Central Bank of Myanmar

SCB Economic Intelligence Center

Vietnam Monitor by EIC

2 March 2017

Macroeconomic Update

Vietnam's GDP in 2016 grew by 6.2%, less than 2015's 6.7% growth according to the General Statistics Office. The 2016 GDP growth came in lower than the government target growth of 6.7%. On a quarterly basis, GDP rose 6.68%YOY in the fourth quarter, compared with an increase of 6.56%YOY in the third quarter. The main cause of the economic slowdown came from natural disasters; a severe drought earlier in the year that caused agricultural sector growth to drop to a record low since 2011. Meanwhile, the service sector grew faster at around 7% and the consumer price index (CPI) in December 2016 increased to 4.74%, mostly driven by more expensive medical services. Retail sales increased by 9.9%YOY in January 2017, up from 10.2% in December 2016, mainly driven by an acceleration in tourism sales. In February 2017, Vietnam experienced a trade deficit of USD 1.2 billion, after a surplus of USD 1.15 billion in January. Lastly, the unemployment rate dropped to 3.27% in 2016, compared to 3.37% in 2015.

The IMF expects Vietnam's economy to grow by 6.3% in 2017.Nevertheless, the National Assembly set a 2017 goal for socio-economic development to achieve GDP growth of 6.7%, around 4% for average CPI, and 6-7% for total export growth. The Vietnam government also targets more than 1 million new businesses by 2020, as the number of newly established firms in 2016 reached a record high of more than 110,000 companies.

A report by PricewaterhouseCoopers (PWC) predicts stable economic growth for Vietnam until 2050, with an average annual GDP increase of 5.1%. The report expects that by 2030 per GDP based on PPP (Purchasing Power Parity) would climb to 29th in the world with GDP at USD 1.3 trillion, and would continue to rise until 2050 to become the 20th largest economy, with a GDP of USD 3.17 trillion. However, PWC cautions Vietnam about the current volatile world situation, with major political events such as Brexit and the Trump presidency in the US. To achieve continuous success, Vietnam would need to enhance institutions and infrastructure significantly to realize the country's long-term growth potential, and to develop the country based on more stable economic reconstruction, perfecting the framework and the education system to help the domestic labor force contribute to long-term economic development.

Currencies

FX	Last	%MOM	%YTD
USDVND	22769.0	0.90%	0.04%
EURVND	24099.0	-0.50%	0.54%
JPYVND	202.2	2.48%	3.91%
THBVND	652.1	1.98%	2.60%

as of February 28, 2017

Facts and Figures

Country	Vietnam
Population (2016 est.)	95.26 million
Labor force (2015 est.)	54.93 million
GDP (2016 est.)	205.3 USD billion
GDP per capita (2016 est.)	2,164 USD
GDP by sector (2016 est.)	Agriculture: 17.0% Industry: 39.0% Services: 44.0%
Top exports (2016)	Phone & spare parts 19% Textiles & garment 14% Computer & parts 10% Footwear 7% Fish and crustaceans 4%
Export partners (2016)	United States 21% China 16% Japan 8% South Korea 6% Germany 4%
Top imports (2016)	Machinery & parts 16% Electronics products 16% Garment 6% Iron and steels 5% Plastics 4%
Import partners (2016)	China 32% South Korea 14% Japan 7% Singapore 6% United States 5%

According to the Foreign Investment Agency under the Ministry of Planning and Investment, FDI inflows to Vietnam totaled USD 15.8 billion in 2016, up 9%YOY. Manufacturing accounted for 65% of total registered capital. South Korea, Singapore, and Hong Kong were the top three foreign investors. In February 2017, the Vietnamese government approved Samsung's proposal for an additional USD 2.5 billion investment in Bac Ninh province, bringing the firm's accumulated investment in the province to US 6.5 billion. Currently, Samsung has six factories in Vietnam, and three of them are in Bac Ninh. Apart from this, the Japan External Trade Organization (JETRO) branch in Hanoi revealed that over 60% of Japanese firms in Vietnam planned to expand their businesses in response to Vietnam's improved investment environment.

Vietnam was regarded as suffering a massive loss after U.S. withdrawal from the Trans-Pacific Partnership (TPP), but Vietnam insisted the damage was small since the country has already engaged in other trade agreements and would earn benefits from reforms led by preparation for the TPP. Vietnam may lose greater access to the U.S., which has been its largest export partner since 2002. Trademap data showed that exports to the U.S. accounted for around 21% of Vietnamese total exports in 2015. Key export products were apparel, electronics, footwear, and furniture, representing 75% of total exports to the U.S. Specifically, the TPP would have reduced tariffs in Vietnam's key footwear and garment industries, and would have given Vietnam-based garment makers a major advantage in exporting their products to the U.S. In one way or another, it might be possible for the TPP to continue with its 11 remaining members, including Japan, which is another major trade partner of Vietnam. However, with or without the TPP, Vietnam has already benefited from preparing for the TPP as reforms and development have been managed in various sectors during 2011-2016. Therefore, whether the TPP comes into effect or not, these reforms will have long-term benefits to Vietnam via improving competitiveness in export industries and better performance of the banking sector. In addition, the TPP has also raised awareness of the Vietnamese people about international integration, one of the significant goals in the Vietnam Socio-economic development plan. Apart from the TPP, Vietnam has 10 FTAs which have already come into effect, including important deals with India, South Korea, Australia, and New Zealand. Five more are being negotiated.

At the World Economic Forum (WEF) held in January 2017, Vietnam's Prime Minister Nguyen Xuan Phuc announced the country's preparation for keeping pace with Industry 4.0, or the forth industrial revolution. The development will target three main aspects: human resources, science, and technology. With the fourth industrial revolution approaching, Vietnam cannot continue to achieve growth relying only on cheap labor or depleting natural resources, so the country is set on refurbishing its growth model. Moreover, Vietnam will host the 2017 APEC Summit in Danang with a theme of “Creating a new driving force for a common future” this November. The discussion will be focused on economic connectivity, business opportunities, and competitiveness in the digital era.

Vietnam is expected to adopt International Financial Reporting Standards (IFRS) instead of the current Vietnamese accounting standards (VAS) by 2025 in its efforts to enhance comparability and improve transparency. VAS has shown some disadvantages when compared to IFRS, and VAS may create barriers and reduce confidence among foreign investors in Vietnam, according to the Director of the Accounting and Auditing Policies Department under the Ministry of Finance.

Vietnam and Mexico have agreed to speed up negotiations for the signing of an agreement on customs co-operation and another deal on double tax avoidance. The consensus was reached at a meeting between Vietnamese Deputy Minister of Finance, Do Hoang Anh Tuan, and Mexican Minister of Finance and Public Credit, Jose Antonio Meabe. The officials held that the future customs deal will be signed based on negotiations on customs in a relevant chapter of the TPP agreement and the two ministries should enhance co-operation in the times to come.

Outstanding consumer loans capped at VND 100 million per person as per the State Bank of Vietnam’s Decree No. 43/2016. Consumers can have maximum outstanding loans of VND 100 million (around USD 4,400) with financial firms. This cap, however, will not apply to car loans, wherein the car is a mortgaged asset, and will encourage financial firms to focus on lending small loans to promote consumption. Regarding interest rates, which remain a matter of concern in consumer lending, the decree stipulates that financial firms must draw up regulations on interest rates, such as the highest and lowest rates for each product. Consumer lending interest rates have always been higher than banking rates as the risks are higher. The decree would improve market transparency, and sub-standard customers could obtain access to credit. Consumer lending currently accounts for around 10% of total outstanding loans in Vietnam.

Industry Update

- **Agriculture:** More Japanese agricultural businesses are entering Vietnam and other growth markets in Asia amid dim prospects at home, according to Nikkei Asian Review. In 2016, Japanese investors secured licenses for 341 new agriculture projects in Vietnam with investment capital totaling USD 868 million, while 219 existing projects added capital of nearly USD 1.3 billion. Nguyen Do Anh Tuan, head of the Institute for Policy and Strategy for Agriculture and Rural Development, said that Japanese investors have already been seeking opportunities to invest in hi-tech farming. At a meeting on 8 February 2017, Prime Minister Nguyen Xuan Phuc lauded the coordination by the Japan External Trade Organization (JETRO) with Vietnamese agencies in preparation for a program that calls for Japanese investment in Vietnam in the first half of 2017, the Vietnam News Agency (VNA) reported.
- **Agriculture:** Vietnam is expected to export 360,000 tons of cashews for the total value of USD 3 billion in 2017, an increase by 3.4% in volume and 5.6% in value over the last year, according to the Vietnam Cashew Association (Vinacas). Global demand for all kinds of nuts is expected to remain high this year because of widely-reported health benefits of nuts. However, domestic cashew processors do not have enough materials to process for exports. In 2016, Vietnam imported 1.06 million tons of raw cashew nuts for processing for export. The imports, mostly from African countries, represented an increase of 14% over 2015. About 1.1 million tons of raw nuts are expected to be imported this year. Vietnam has been the world's largest cashew nut exporter for 11 consecutive years, accounting for 42% of the world's total cashew nut export volume last year.
- **Transportation:** The daily flight was launched in December 2016 and is operated with an Airbus A320. "We congratulate VietJet on the launch of this exciting new service to Ho Chi Minh, which provides access to an important destination for our customers," said Mark Whitehead, chief executive of Hactl. Major exports from Vietnam to Hong Kong include electronic components, telecommunications equipment and footwear, while imports from Hong Kong include telecommunications equipment, meat products and electronic components. "Hong Kong is a very important market for Vietnam, and a key step in our airline's development," said Thi Thuy Binh Nguyen, vice president of VietJet Air. "We look forward to playing our part in facilitating increased trade on this route." VietJet Air launched operations in 2011. The low-cost carrier now flies to 23 international and 37 domestic destinations with its fleet of 42 A320s and A321s.
- **Building Material:** Vietnam's steel imports hit record in 2016. The country steel's imports increased nearly 20% in 2016 to 18.4 million tons, accounting for 60% of country's demand. More than half of steel import came from China which more cost-competitive than Vietnam steel product. In 2017, Vietnam's government will impose safeguard duty, to protect domestic steel manufacturers from cheap steel inflow from China.

- **Building Material:** Vietnam Cement Association (VCA) forecasts that the country will face cement oversupply of around 50 million tons in 2020. The cement production capacity in Vietnam was nearly 88 million tons in 2016 which is expected to expand to 108 million tons in 2018 and 130 million tons in 2020, while domestic demand is forecasted to be 82 million tons in 2020. This situation will force Vietnamese producers to focus more on the export market, and compete with major players like Thailand.
- **Construction:** A subsidiary of Thailand's Hemaraj Land and Development Pcl and Vietnamese construction firm, Cienco 4, have teamed up to build a USD 1 billion industrial zone in Vietnam. The venture, Hemaraj-Cienco 4 Co, signed a deal to start building the industrial zone next year in seven phases for completion in 2038. The project includes two industrial parks, with a combined area of 3,000 hectares (7,400 acres) and rental contracts for 70 years. In the first phase, they will develop an industrial estate on an area of about 500 hectares, which should start providing revenue in the second half of 2017.
- **Electrical & Electronics:** Vietnam's government has agreed on Samsung Display Vietnam (SDV)’s plan allowing the company to invest additional USD 2.5 billion in 2018. As of 2016, Samsung has invested USD 15 billion in the AMOLED panels--parts of smartphones--assembly plant in the northern part of the country.
- **Food & Beverage:** The EU helps developing brands for Vietnam’s food industry. This strategy is part of the National Branding Program, which aims to build and develop brands for Vietnam’s export commodities. The program will help increase recognition of the country’s food products in the world market, thereby boosting the sector’s growth through stronger exports. Enterprises will be given advice while promotion activities will be intensified to develop a national image for the food industry. Vietnam’s food industry has a huge potential with an annual export turnover of about 22 billion USD. Vietnam currently ranks first in the world in the export of rice, the world’s second largest exporter of coffee and in the world’s top 5 largest tea exporters.
- **Food & Beverage:** Vietnam has recently unveiled the country’s first-ever guidelines for producing and selling fish sauce. The set of rules was a collaborative project between the Vietnam Association of Seafood Exporters and Producers (VASEP) and other local fish sauce-producing unions. By establishing a proper standard for the condiment, they hope to avoid similar scandals and distinguish traditionally produced fish sauce from mass-produced ones – now referred to as “fish-flavored condiments”. The new standard features specific criteria for raw materials, quality, testing methods, labeling and transportation, and most importantly, a definition for fish sauce is also included. Vietnam’s fish sauce market is estimated to be worth approximately USD 501 million. In 2015 alone, the country produced 70,000 tons of fish sauce to cater to local residents, who on average consume four liters of the condiment each year.

- **Telecom:** SK Telecom (SKT) signed a contract with MobiFone, a Vietnamese wireless operator, to deploy 4G LTE network across the country. Under the agreement, SK Telecom will provide MobiFone with solutions for designing and constructing the nationwide LTE network through to 2020, and the pair will also cooperate in the development of additional services, including 5G and the Internet of Things (IoT).
- **Oil & Gas:** Vietnam is putting more of its state-owned companies up for sale. The government is looking to sell up to 44% of its stake in Vietnam's monopoly crude-oil trader, PetroVietnam Oil Corp (PV Oil) to strategic investors. The aim of the stake sale was to obtain foreign money and technology to help PV Oil grow its market share in refined oil products and build ties with international partners. A potential valuation for the stake is not specified.
- **Real Estate:** Vietnam's government induced the construction industry to tighten property development management, fearing that supply and demand imbalances would lead to a housing bubble. The past year was a highlight for Vietnam's real estate market, with a solid growth especially in resort property, expansion of developers in affordable home, and the end of 3-year-long housing stimulus package. Moreover in 2017, the government will gear up the plan to restructure property market, with cooperation from relevant ministries.
- **Hotel:** China has emerged as the top single-country source of tourism for Vietnam over the past year, a status that could help broader relations hurt by a maritime dispute and historical distrust. The upswing in Chinese arrivals caught Vietnam's attention last year as about 2.2 million reached the country from January through October. A land border crossing and short flights from southern Chinese cities gave tourism an initial boost. China is now Vietnam's top source of tourism, according to the Chinese state-run Xinhua News Agency.
- **Petrochemical:** Siam Cement Group (SCG) expects to gain a new partner to start investing in a USD 4.5-billion petrochemical complex in Vietnam within the first quarter of this year. The move is expected to help advance the project, which has been delayed for a few years because of the withdrawal of the previous partner, Qatar International Petroleum Marketing Co Ltd, in 2015. The three existing partners are SCG, Petro Vietnam and Vinachem.
- **Power:** Korean Western Power Co. will begin construction of 1,200 MW coal-fired power plant in Quang Tri province in 2018. The plant is expected to operate in 2021.
- **Wholesale & Retail:** Parkson, a brand of Lion Group from Malaysia, after closing some of its department stores in Hanoi within a two-year period, has officially decided to leave the capital. Parkson still maintains seven malls in three cities, including five in HCM City, Parkson TD Plaza in Hai Phong City and Parkson Vinh Trung Plaza in Da Nang. The "department store" model put Parkson at a disadvantage in comparison with the

"shopping mall" model applied by other big brands such as Vincom, Aeon, Mipec and Crescent Mall.

- **Logistics:** Vietnam will have some 116 warehouses at the border gates with Laos and Cambodia by 2035, according to the Ministry of Industry and Trade. Under Decision 229/QD-BCT issued on January 23, the ministry said it would develop professional and modern warehouses with enough logistics services to keep import and export goods at these border gates. The warehousing system will promote sustainable development of import and export activities along the border lines. In accordance with specific targets of the plan, by 2025, the warehousing system will meet all demand of the area and have enough capacity to store import and export goods at the border gate regions. 80% of the warehouses will be required to provide important and necessary logistics services, such as storage, handling, inspection and implementation of customs procedures for import and export goods. The plan includes the upgrade or building of at least one warehouse at an international border gate region or a major border gate to meet the demand of import and export goods. All goods under the warehousing system will be inspected for quality, food hygiene, safety and other related standards. The ministry expected the plan to ensure stability and step-by-step promote growth of imports and exports at border gates along border lines between Vietnam and the two countries.

Key Indicators

Domestic Demand	Share of GDP *	Unit	2012	2013	2014	2015	2016E	2017F
Real GDP		% YOY	5.2	5.4	6.0	6.7	6.2	6.3
Household consumption	65%	% YOY	4.9	5.2	6.1	9.3	-	-
Government consumption	6%	% YOY	7.2	7.3	7.0	7.0	-	-
Fixed capital formation	25%	% YOY	1.9	5.3	9.3	9.4	-	-
Consumer price (end period)		%	6.8	6.0	1.8	0.6	4.7	3.5
Policy rate (end period)		%	9.0	7.0	6.5	6.5	6.5	
USDVND (period average)			-	21,053.0	21,211.3	21,964.0	22,371.3	

* Share of 2015 GDP

External Sector	Unit	2011	2012	2013	2014	2015	%YOY
Export	USD mn	92,296	110,118	125,765	142,013	163,019	14.8
Electrical & Electronics	USD mn	12,846	22,396	32,283	36,495	64,496	76.7
Textiles	USD mn	25,103	27,536	32,584	38,975	50,700	30.1
Import	USD mn	104,418	111,528	128,890	144,294	212,439	47.2
Electrical & Electronics	USD mn	14,390	22,963	31,424	34,081	41,148	20.7
Textiles	USD mn	12,204	12,451	14,715	17,050	28,227	65.6
Export from Thailand	USD mn	7,059	6,483	7,182	7,882	8,907	13.0
Foreign Direct Investment	USD mn	7,430	8,368	8,900	9,200	11,800	28.3
Net TDI from Thailand	USD mn	358	283	402	141	269	90.8
Visitor Arrivals	Person mn	6.0	6.8	7.6	7.9	7.9	0.9

Note: 1) %YOY (year-on-year percentage change) of the YTD value

2) Exports and Imports are based on IMF data.

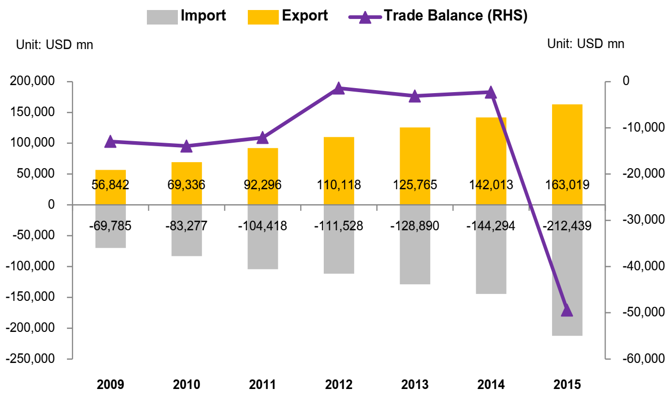
3) FDI reflects foreign direct investment (net inflows).

4) Net TDI from Thailand reflects Thai direct investment abroad.

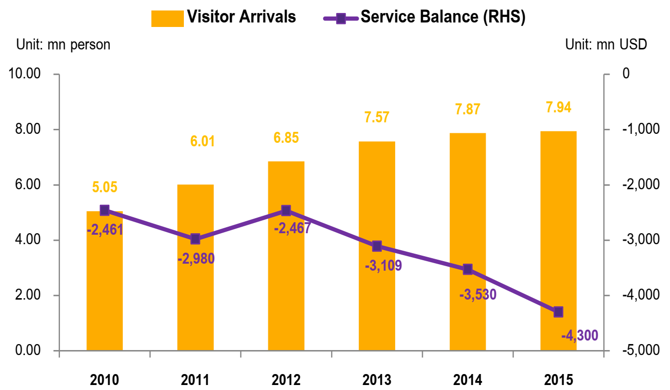
Increase	Decrease	Stabilize

Sources: ADB, Bloomberg, CEIC, CIA, IMF, World Bank, Harvard, MIT, the Government of Vietnam, and the State Bank of Vietnam

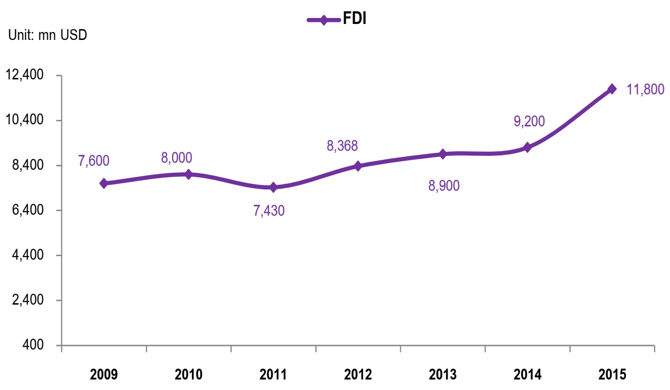
International Trade



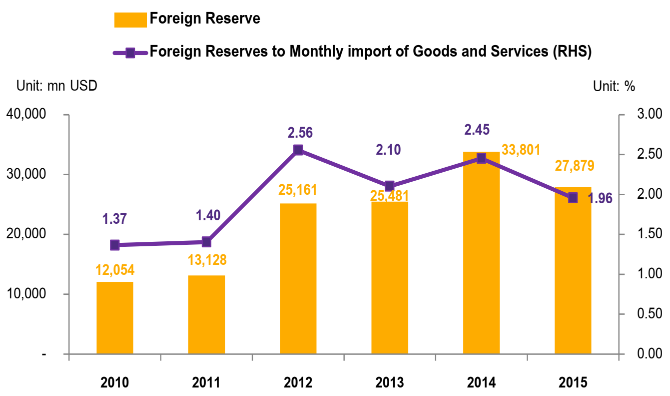
Tourism and Services



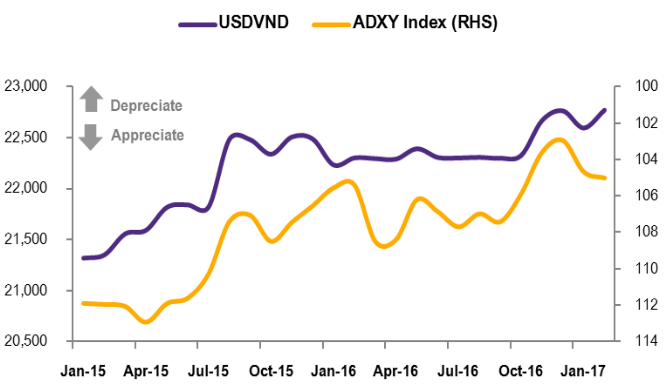
Foreign Direct Investment



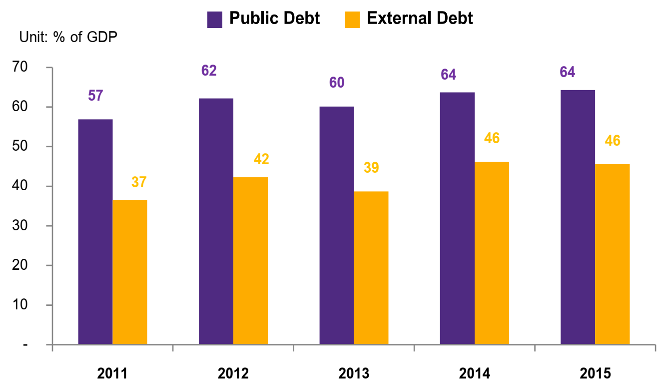
Foreign Reserves



Vietnamese Dong and Asia Dollar Index



Public Debt and External Debt



Source: ADB, Bloomberg, CEIC, CIA, IMF, World Bank, Harvard, MIT, the Government of Vietnam, and the State Bank of Vietnam

Contact Person:

Phacharaphot Nuntramas, Ph.D. (phacharaphot.nuntramas@scb.co.th)

Thanapol Srithanpong, Ph.D. (thanapol.srithanpong@scb.co.th)

Jiramon Sutheerachart (jiramon.sutheerachart@scb.co.th)

Kunyarak Naiyaraksaree (kunyarak.naiyaraksaree@scb.co.th)

Economic Intelligence Center (EIC)

EIC Online: www.scbeic.com